



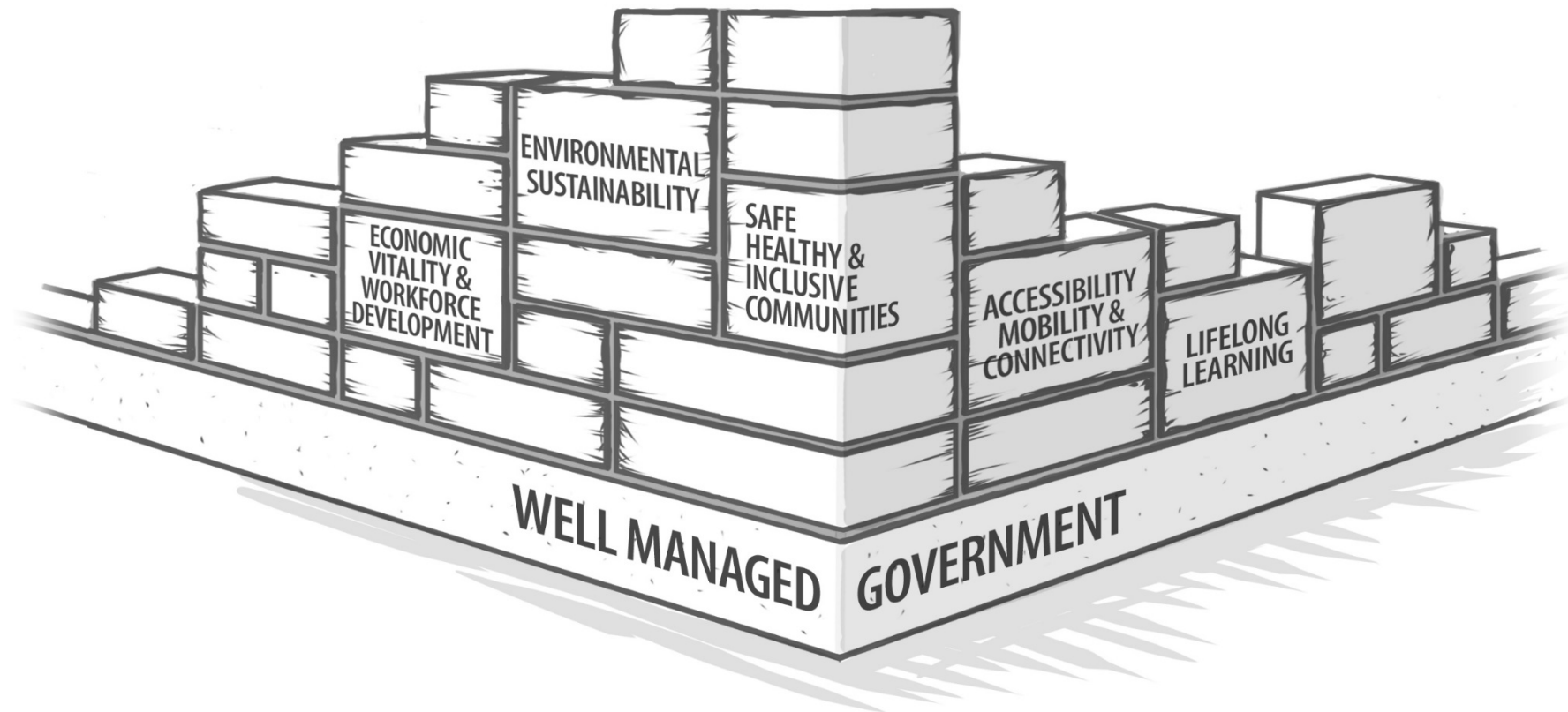
General Fund Mid-Year Budget Update

City Council Worksession
February 4, 2014

Presentation Overview

- The purpose of the presentation is to provide an update of the city's financial condition and receive guidance from City Council on policies and strategies under consideration
- The presentation discusses:
 - Where we have been - Year-end FY 2013
 - Where we are now - Mid-year FY 2014
 - Where we are going - FY 2015 and Beyond
- The outcome of today's discussion will lay the groundwork in developing the budget in FY 2015 and beyond

Where We Have Been



Established, September 2011

Groundwork for a Well-Managed Government and a Resilient City

THE ROCKEFELLER FOUNDATION
100 RESILIENT CITIES
CENTENNIAL CHALLENGE
LIVING WITH WATER

NEIGHBORS
BUILDING
Neighborhoods

smart
processing
Improving Norfolk Together

Norfolk
★★★★★
All-America City
2013

IMPACT NORFOLK

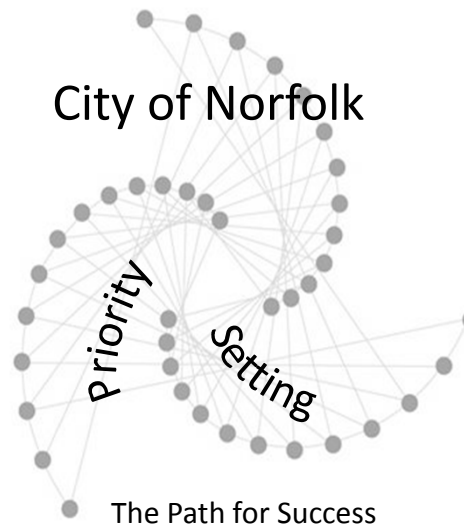
HEALTHY

NORFOLK

VIRGINIA VALUES

Recapitalizing Virginia's Workforce
VETERANS

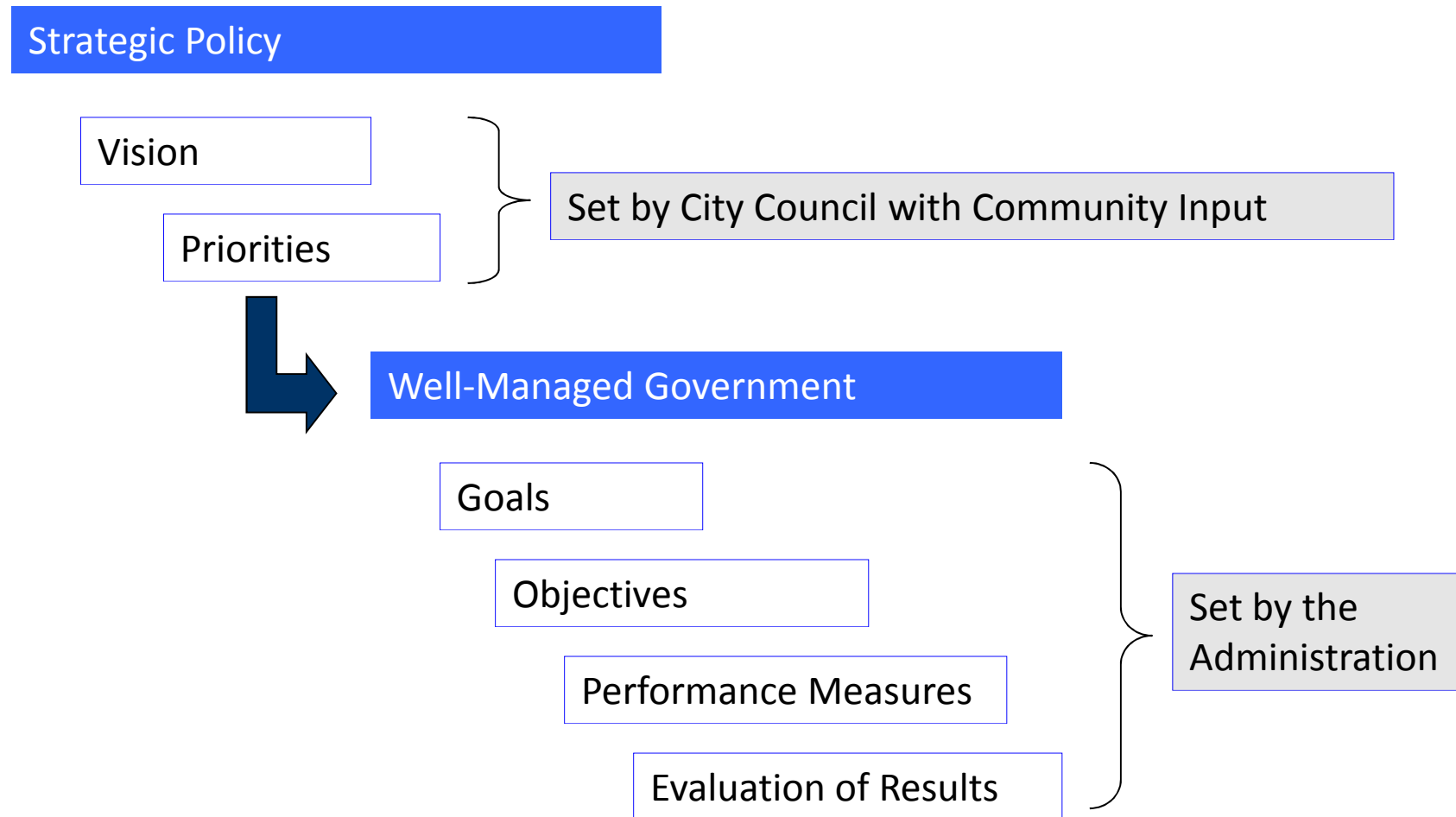
City of Norfolk



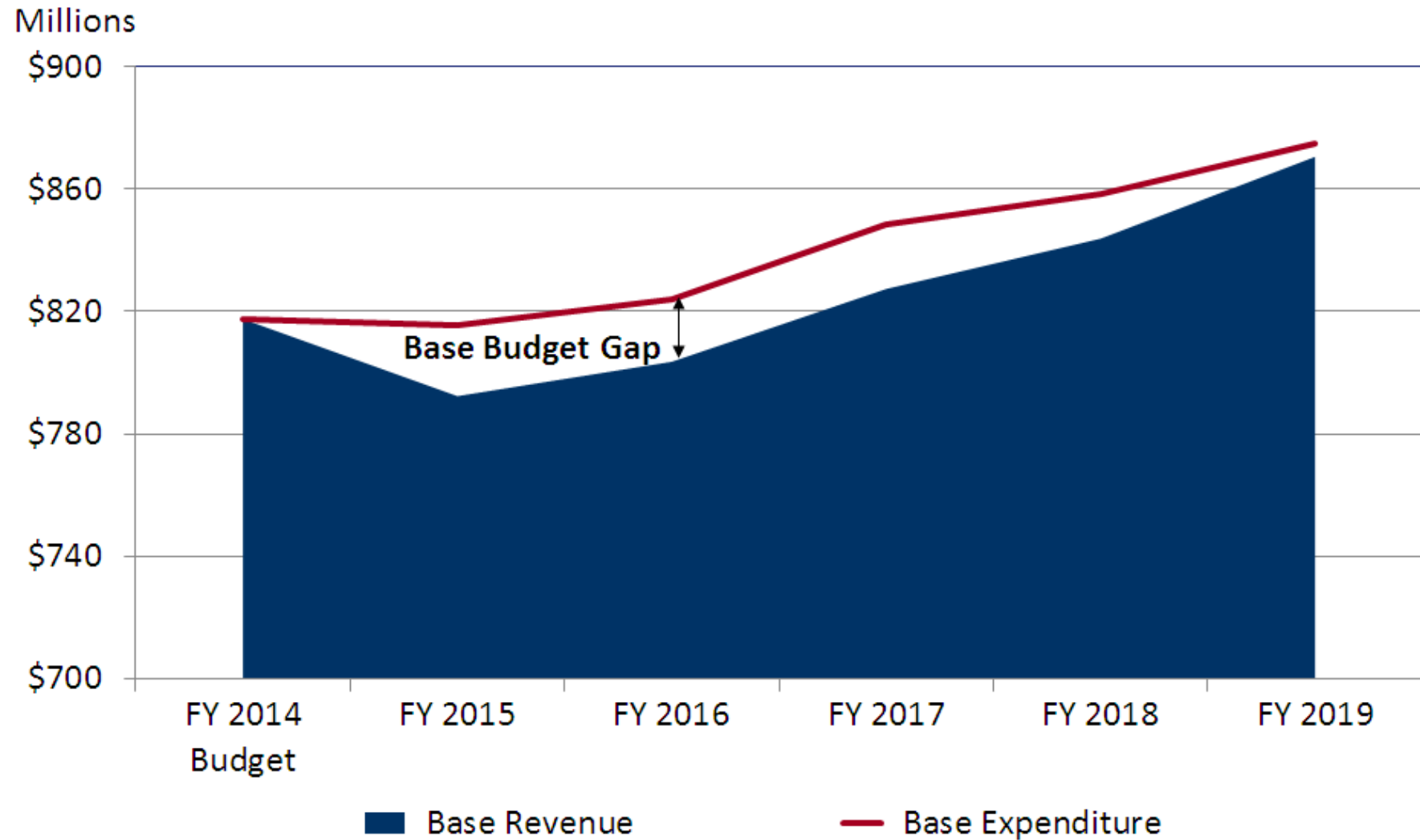
**STANDARD
& POOR'S**

CREDIT RATING UPGRADE

How Do We Fund Priorities



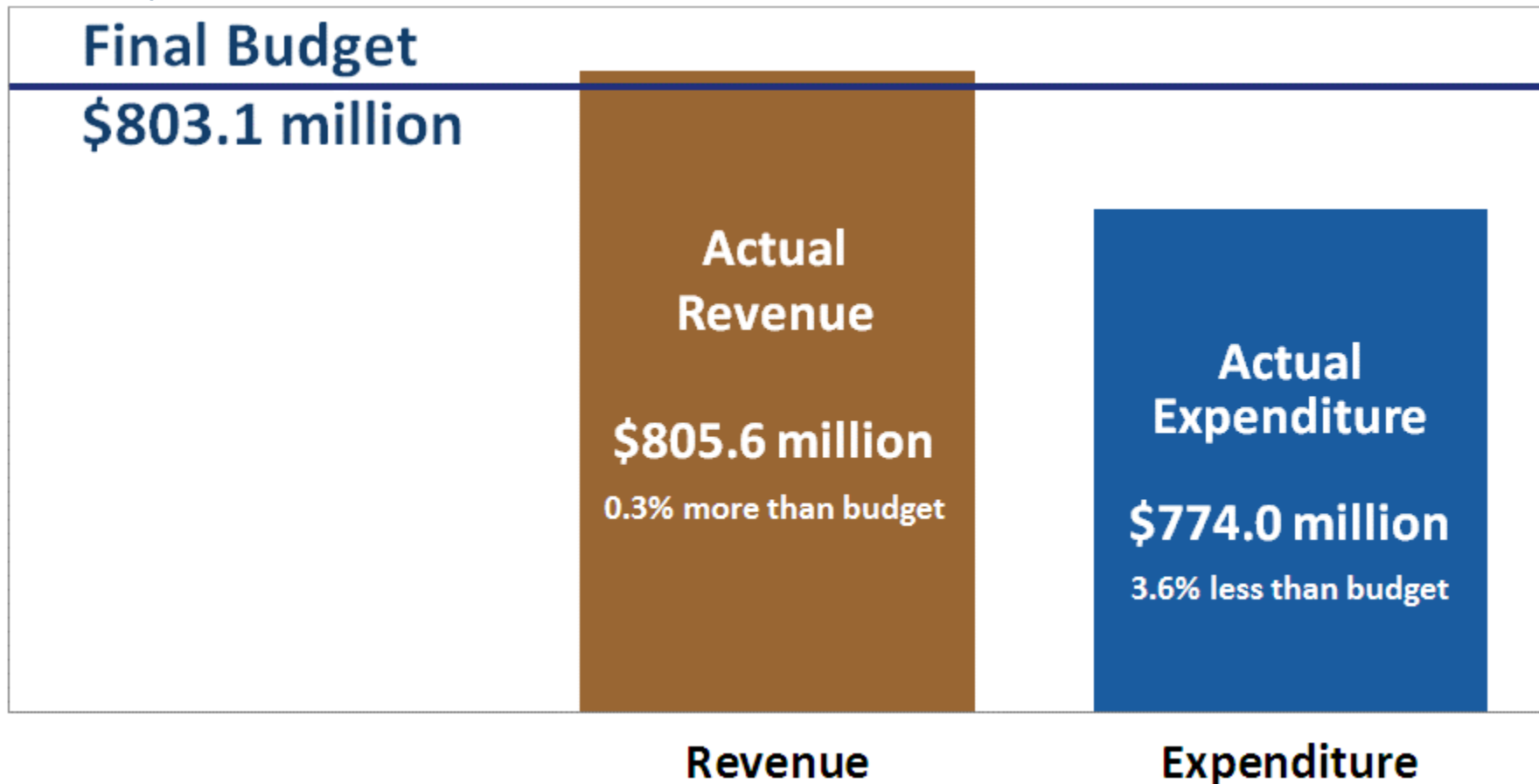
Preliminary Five-Year Outlook



General Fund FY 2013 Results

\$5.2 million surplus

Variance was less than one percent of the budget and the smallest in three years*



* Variance of \$5.2 million was after accounting for other resources, carryforward and designations

Accounting for Surplus

FY 2013 Budget Overview *(preliminary)*

- Revenue *(0.3 percent more than budget)*
- Expenditure *(3.6 percent under budget)*

Budget	Actual	Variance
\$803.1	\$805.6	\$2.5
\$803.1	\$774.0	(\$29.1)
	<u>\$31.6</u>	

FY 2013 Budget Variance

FY 2013 Year-End Resources:

- FY 2013 Budget Variance
- Other Resources *(FY 2012 surplus, account closeouts)*

\$31.6
\$ 9.9

Subtotal Year-End Resources

\$41.5

Designations: Approved Carryforward/Designations

- Approved FY 2014 Carryforward
- Approved Norfolk Public Schools (NPS) FY 2014 Carryforward
- Designations

(\$19.6)
(\$ 7.7)
(\$ 9.0)

Subtotal Designations

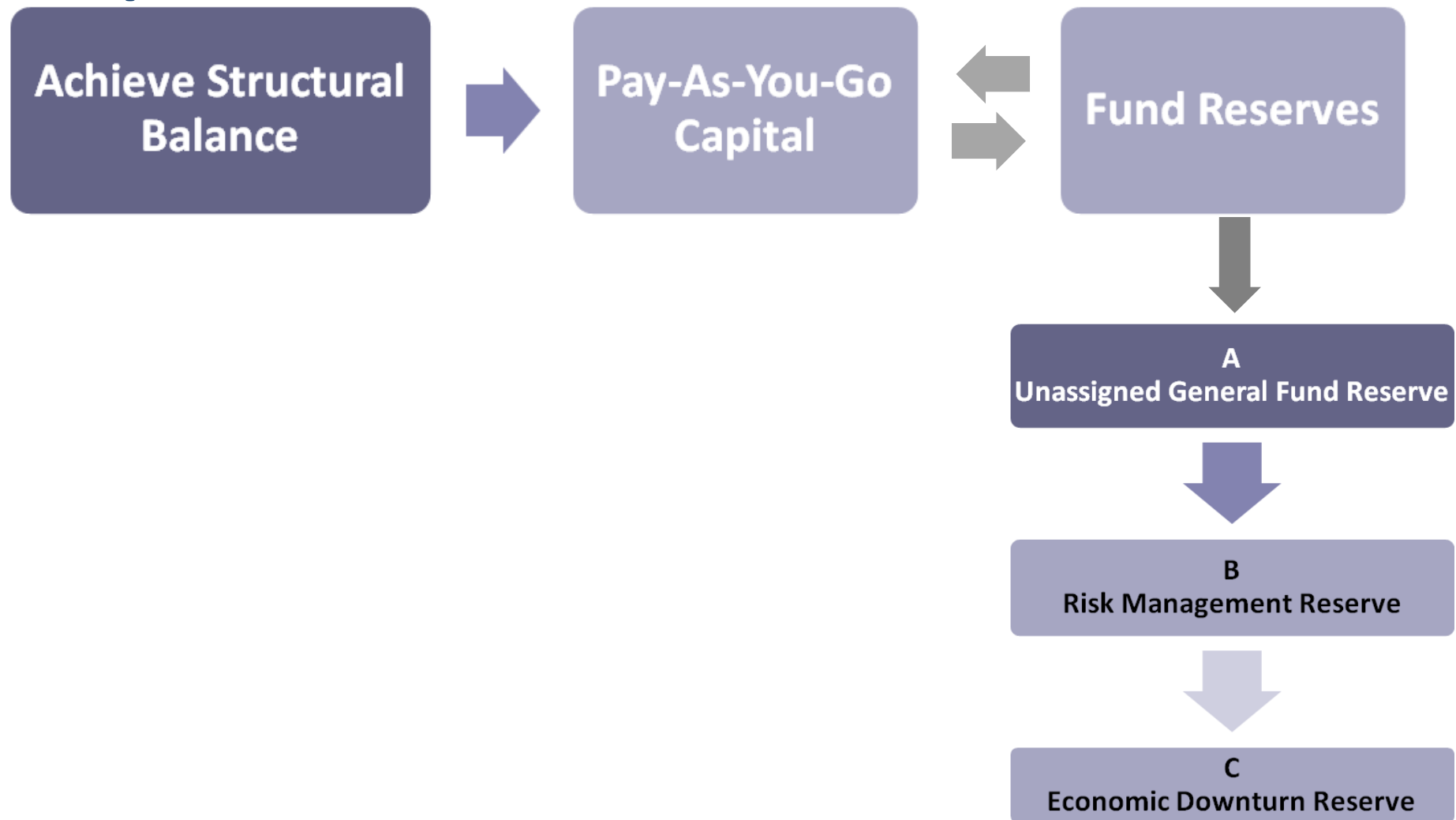
(\$36.3)

Undesignated Balance*

\$5.2

* Does not include NPS surplus of \$2.4 million

New financial policies and the \$5.2 million surplus

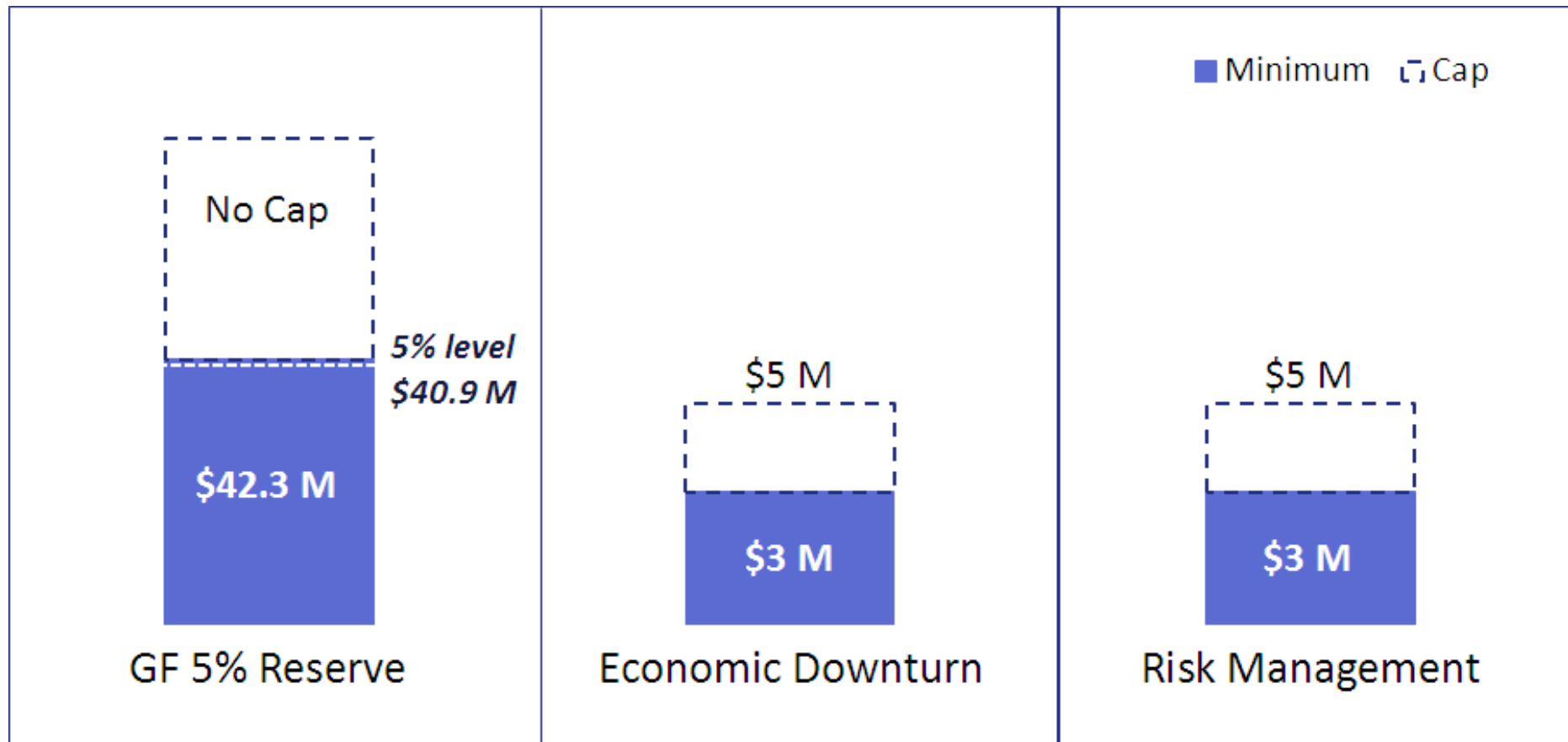


Pay as you go Capital

From a financially sound practice, when possible, use cash for capital projects and purchase of vehicles and technology, as opposed to bonds

General Fund Reserves

Reserves have met or exceeded minimum threshold



Administration Recommendation

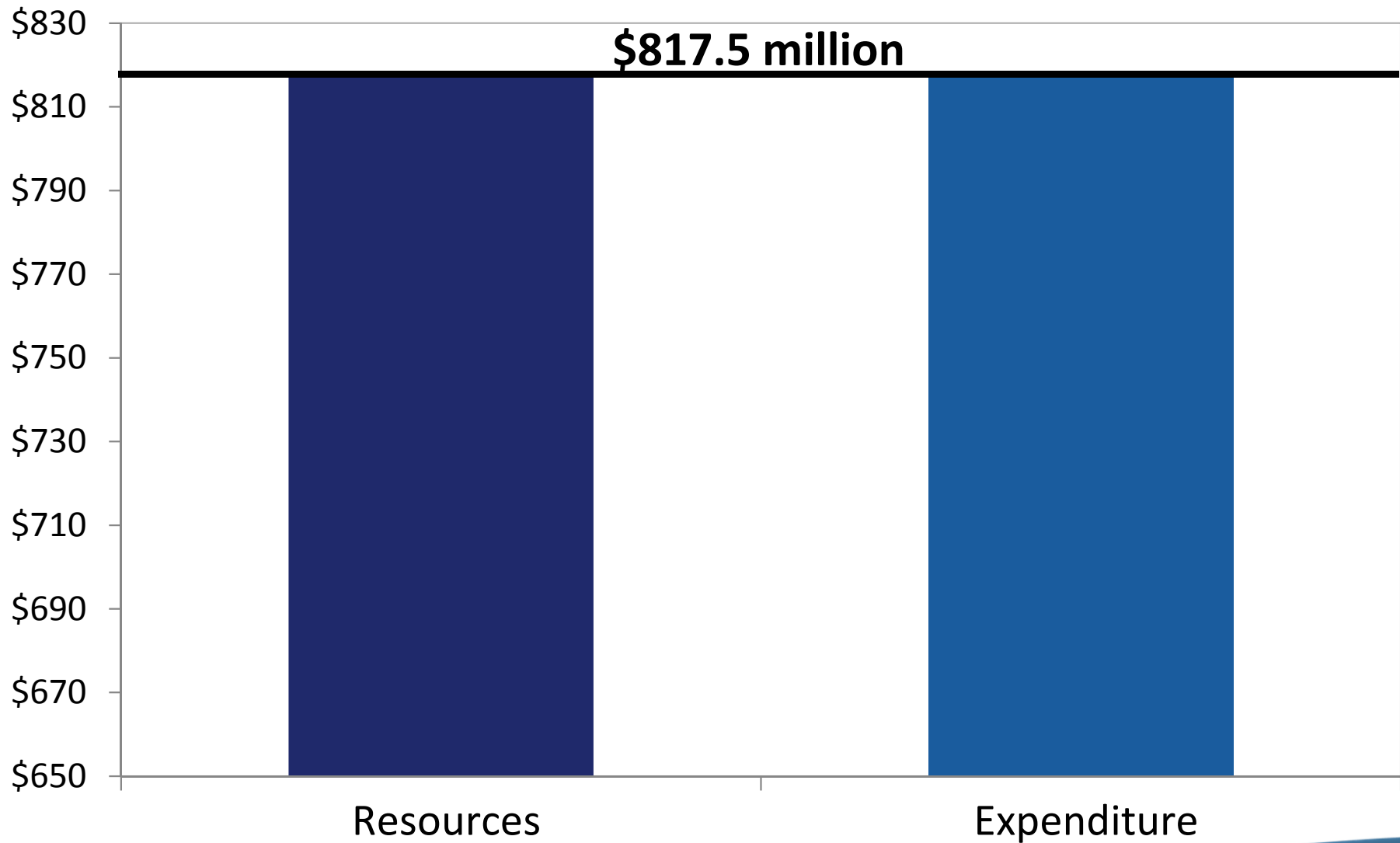
- Use FY 2013 surplus in manner consistent with financial policies
- Use surplus in the event revenues and expenditures are so far out of balance, resulting in significant reductions in programs and services



Where We Are Now

Mid-Year FY 2014

FY 2014 Budget

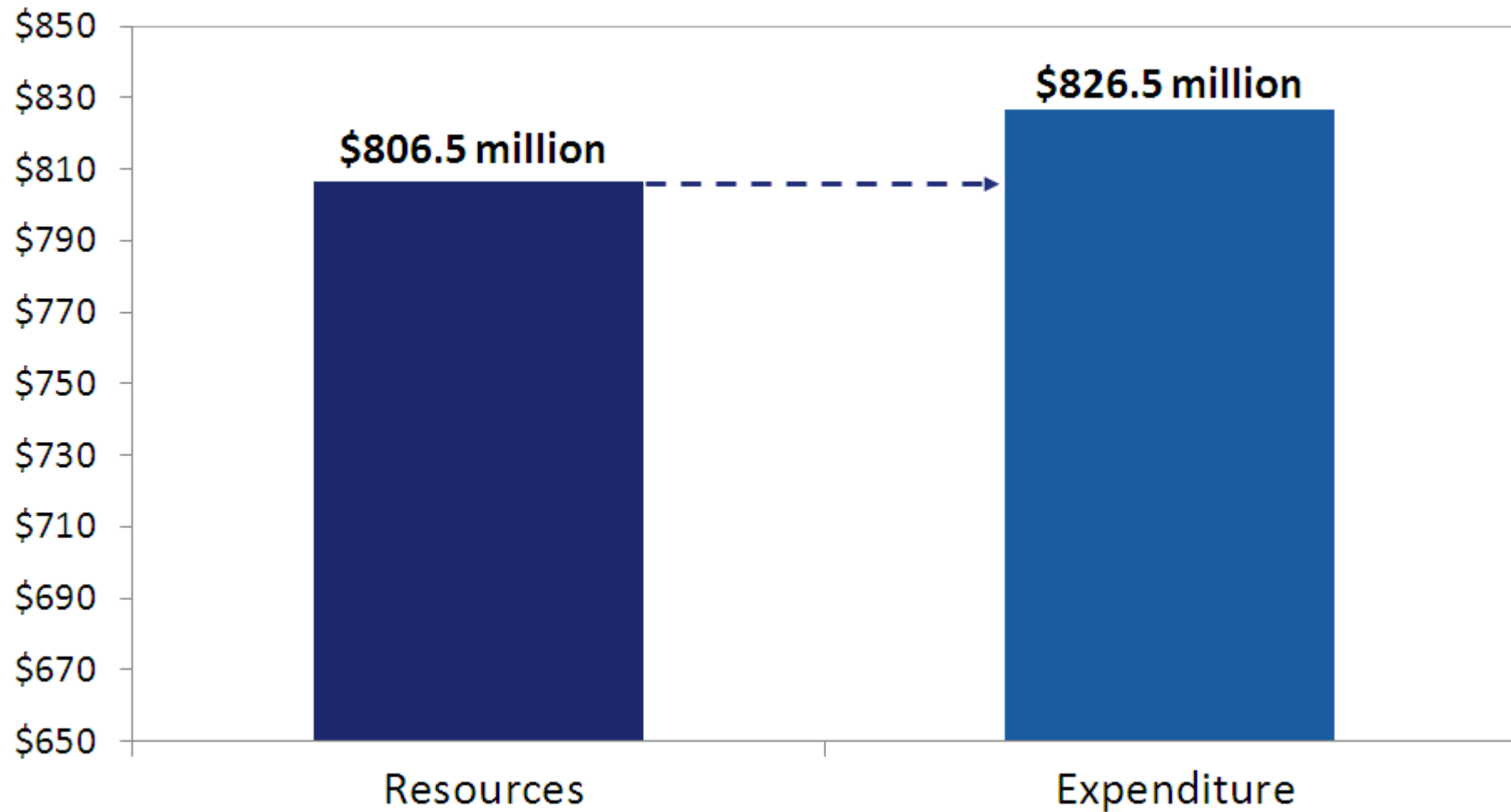


Mid-Year FY 2014 Budget Update

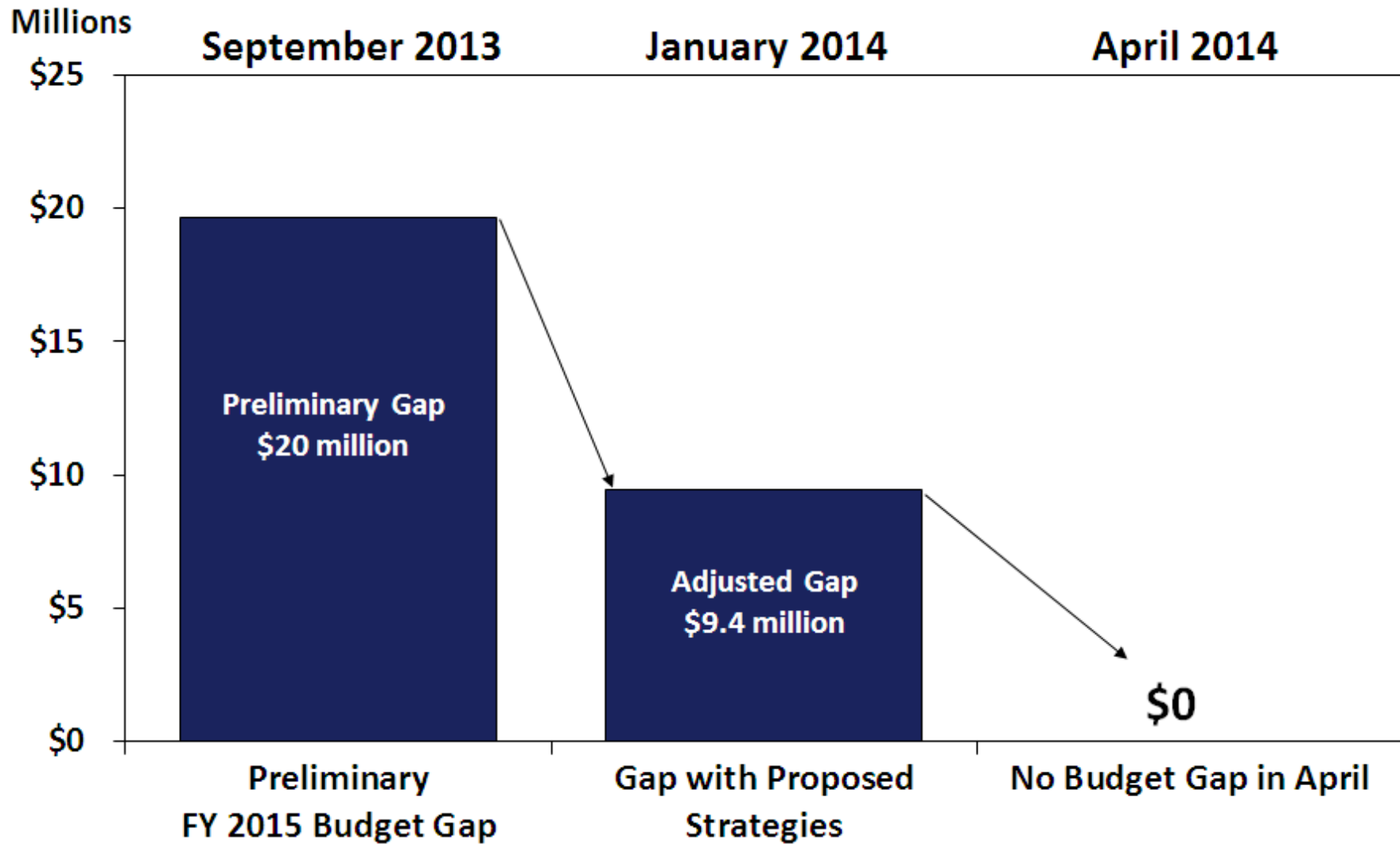
Year-to-date, the general fund is tracking the budget

Update: FY 2015 Preliminary \$20 million gap

City Council Retreat, September 2013



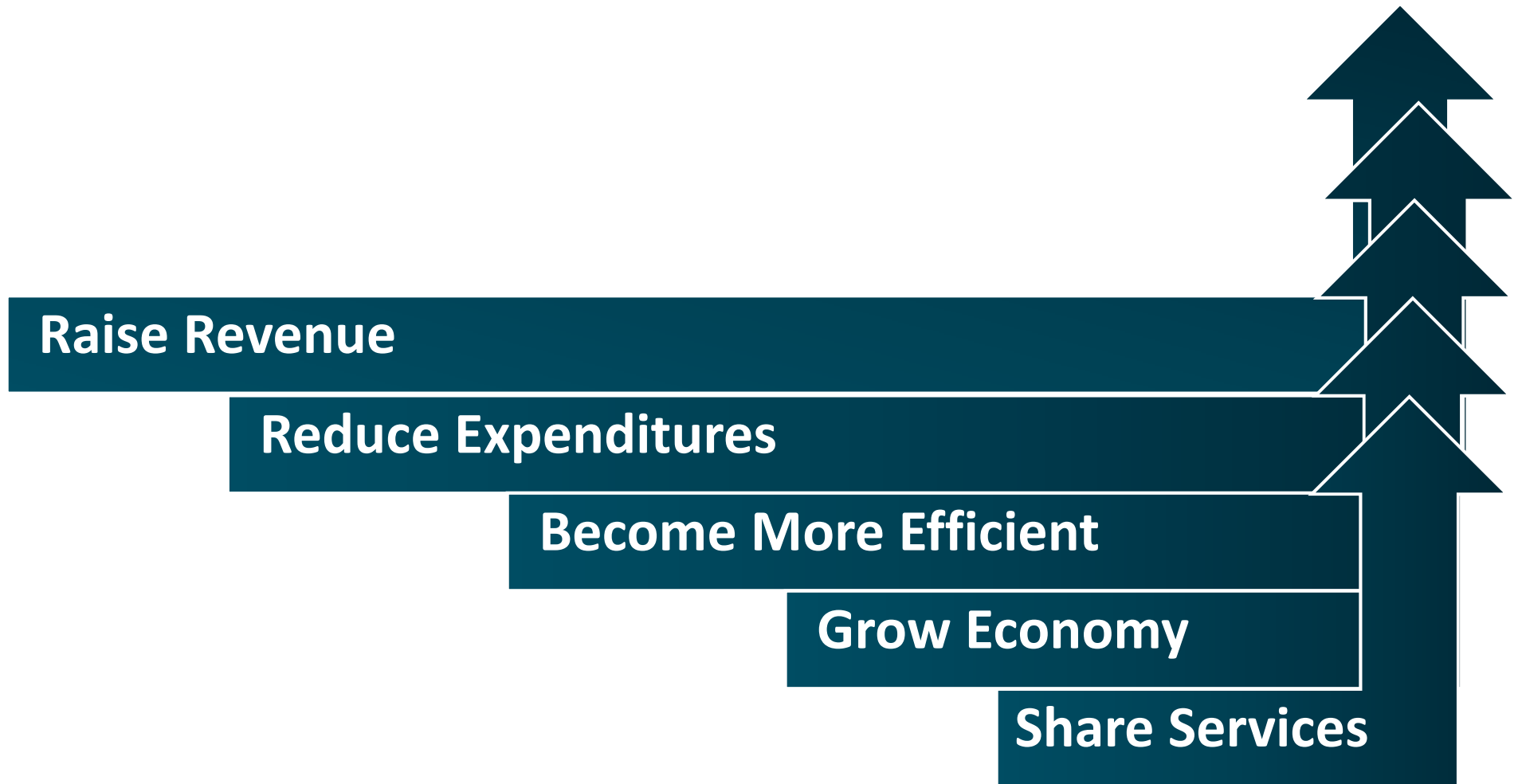
FY 2015 Preliminary Budget Gap



Cutting the gap in half

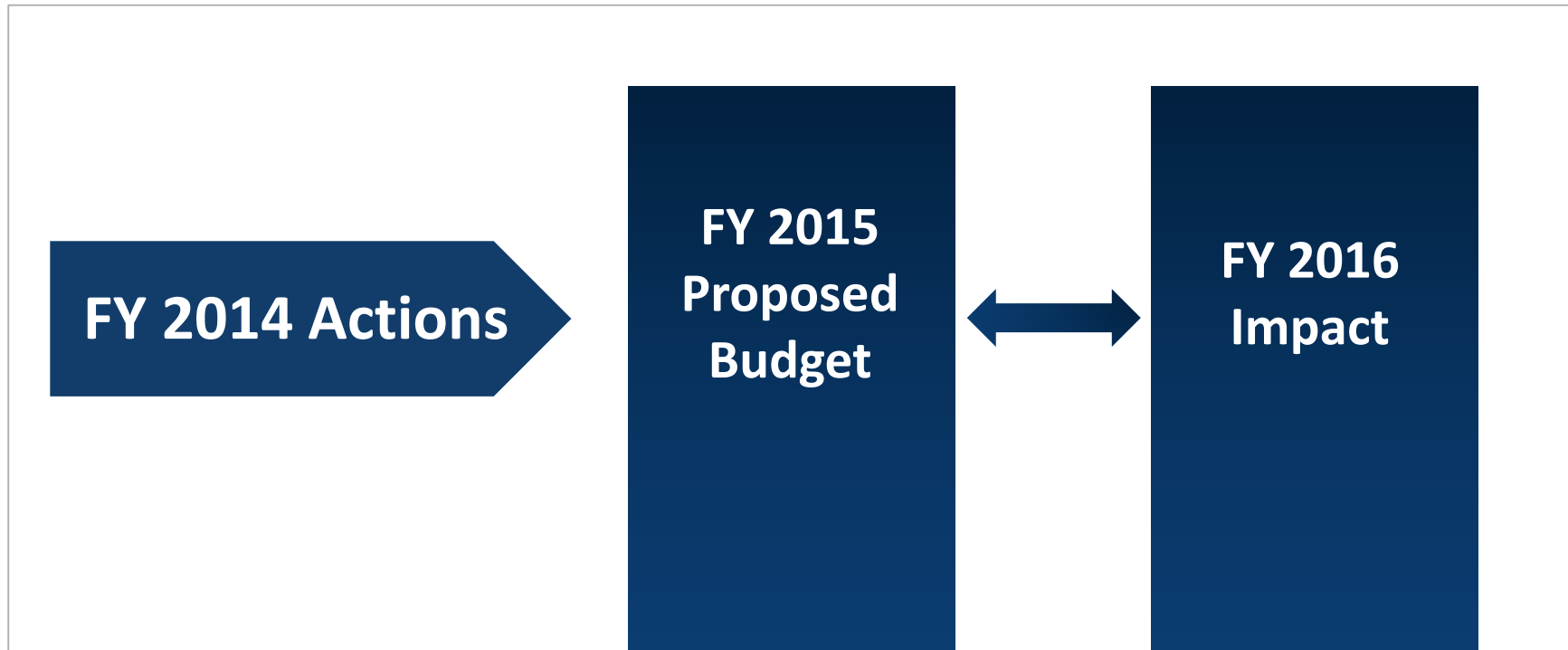
- Refined estimates
- Shift accountability from central administration to departments
 - Level fund FY 2015 at FY 2014 budget
 - Reduce overall departmental budget by one percent

Guiding principles to balance the budget similar to past situations

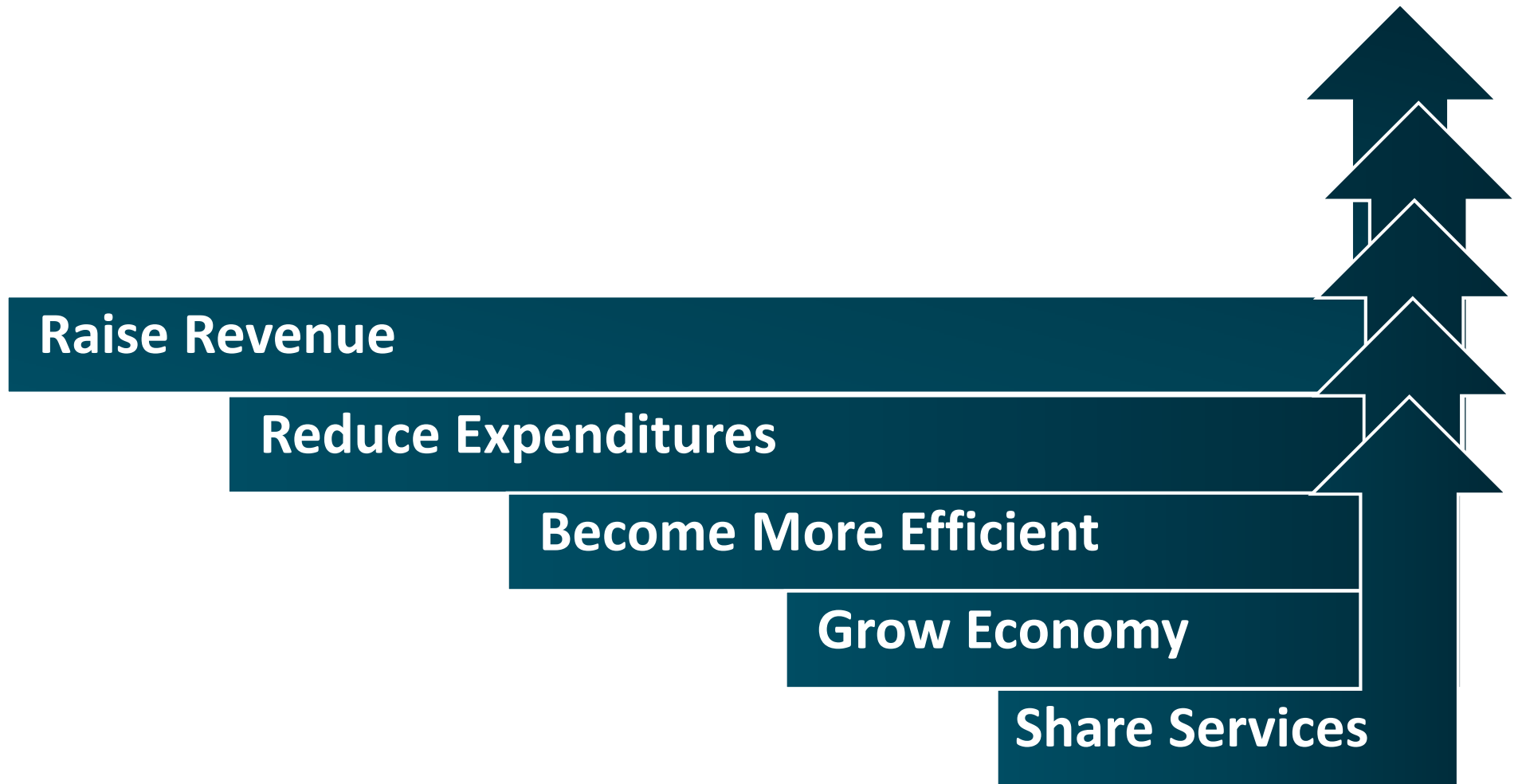


Guiding principles to balance the budget

- However, we will begin the process of viewing the budget development process through a two-year lens



Five-pronged approach to balancing the budget



What we have accomplished





Where We Are Going

FY 2015 and beyond

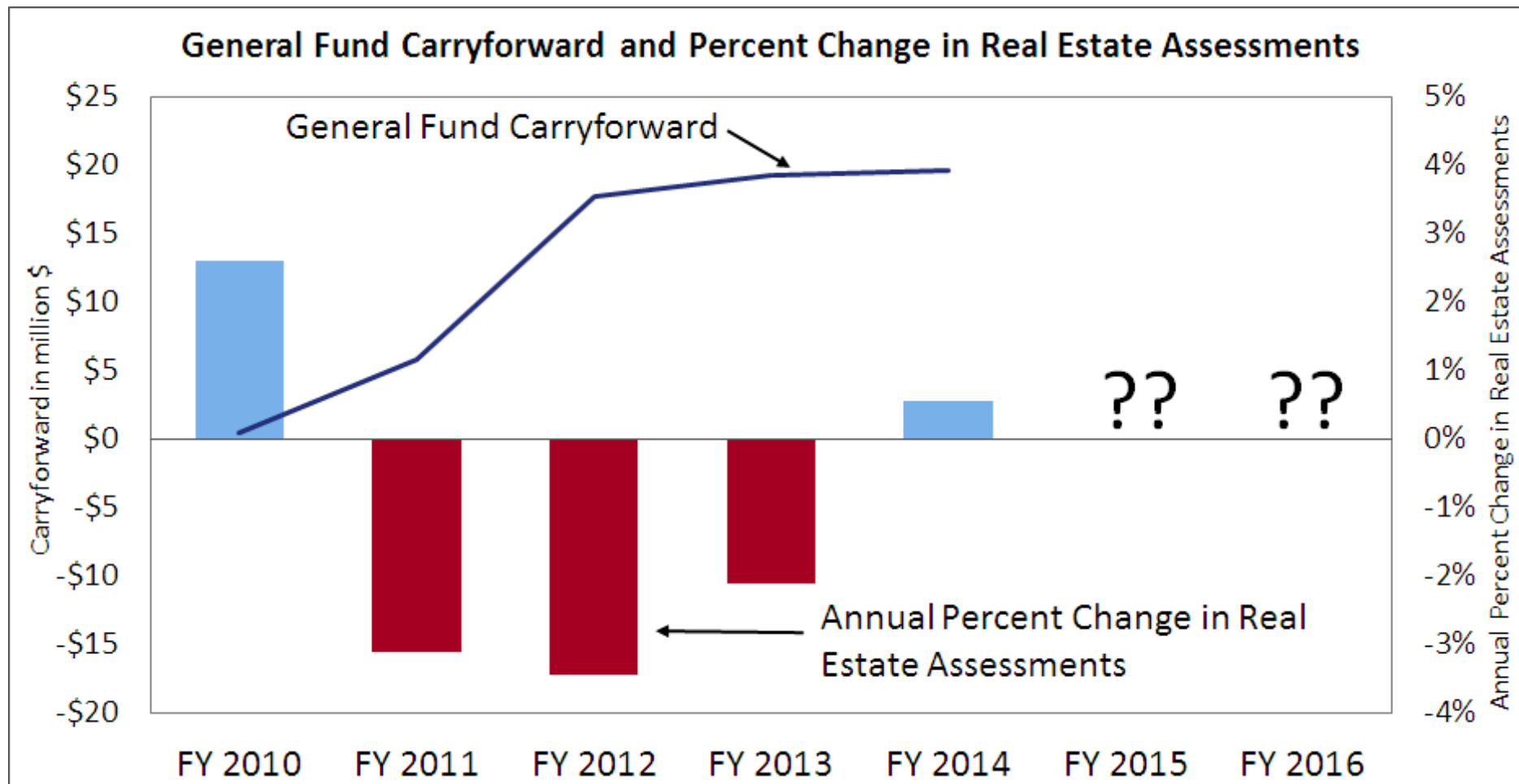
Ongoing Priorities

- Financial Stability
 - Decrease reliance on one-time revenue for ongoing expenses
- CIP/Neighborhoods
 - Neighborhood plans – look for opportunities to restore funding
 - Healthy neighborhoods
- Compensation
 - Employer of Choice
 - Attraction, retention, motivation and development (ARMD) of employees
- Lifelong Learning
 - Maintain city support for K-12
 - Focused workforce development strategy

Achieve structural balance

Reduce reliance on carryforwards to balance the budget

Ensure carryforwards are tied to one-time expenditures



Ensuring financial stability

- Two-year lens
- Economic Roundtable/Indicators
- Executive Strategic Evaluation Team (ESET)/Strategic Workforce Analysis Team (SWAT)
 - Consolidate or centralize staffing/functions
 - Review programs and services to identify opportunities for targeted reductions
 - Align fees and charges to fully recover costs
- Quarterly Financial Reports
- Establish a policy that supports real estate revenue sustainability

Taking care of our capital needs

- More ongoing cash funding for projects
- Funding for neighborhood improvements not only in the “Neighborhood Plan” areas but all neighborhoods
- Independent Facility Assessment



Attraction, Retention, Motivation and Development (ARMD)

Recap: Goals of the FY 2014 Comprehensive Compensation Review

- Compensation study to review salaries
- Determine if the step system is appropriate
- Consider implementing additional retirement programs (Five and Five, DROP, VRIP)
- Consider scenarios to alleviate compression
- Review of market rates
- Simplify the format of the current compensation plan

Attraction, Retention, Motivation and Development (ARMD)



Comparison of Select Market and Compression Adjustments for Regional Localities

Locality	Action
Chesapeake	\$4.8 million in FY 2008 to address compression and prevailing market equity issues
Hampton	RFP in progress for comprehensive pay study
Newport News	Position regrades for out-of-market positions annually (typically less than ten per year); Overhauled pay plan in FY 2005, providing an average increase of two to four percent
Portsmouth	Compensation study in progress in FY 2014
Suffolk	Implemented phase one of recommendations from comprehensive pay study in FY 2013. One third of pay adjustments from study were provided
Virginia Beach	Awarded annual compression adjustments from FY 2001 - FY 2009 and FY 2011 - FY 2014; Provided \$8 million in FY 2008 to address compression adjustments and market survey recommendations. Appropriates \$650,000 every three years for vertical compression

How have general employee salaries increased over the years?

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005
GW	2.0%	0.0%	2.0%	3.0%	2.5%	4.0% ¹	3.0%	1.5%	1.5%
STEP	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	0.0%	2.5%	2.5%
Total	4.5%	2.5%	4.5%	5.5%	5.0%	6.5%	3.0%	4.0%	4.0%

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014
GW	1.5%	2.0%	2.0%	1.0%	0.0%	0.0%	0.0%	2.0%	2.0%
STEP	2.5%	2.5%	2.5%	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	4.0%	4.5%	4.5%	3.5%	0.0%	0.0%	0.0%	2.0%	2.0%

► **Classified employees received a salary increase of:**

- 26 percent between FY 1999 and FY 2004
- 22 percent between FY 2004 and FY 2009
- 4 percent between FY 2009 and FY 2014

¹ Four percent was the average increase for general employees from a compensation study

Norfolk is the only regional locality to provide a two percent GWI for all employees over the past two fiscal years

City	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Norfolk	3.5%	0.0%	0.0%	0.0%¹	2.0%	2.0%
Chesapeake	3.0%	0.0%	1.5%	1.5%	0.0%	1.6%
Hampton	2.8%	0.0%	0.0%	0.0% ¹	0.0% ²	1.0% + ²
Newport News	2.0%	0.0%	0.0% ¹	2.0%	1.5%	2.0%
Portsmouth	3.0%	0.0%	0.0%	0.0% ³	0.0% ³	0.0% ³
Suffolk	3.0%	0.0%	2.0% ³	0.0%	2.0%	0.0%
Virginia Beach	2.5%	0.0%	0.0%	2.5%	1% ⁴	1.66% ⁵

¹\$500 one-time bonus

²Up to \$1,000 pay for performance bonus

³Percent adjustment awarded in form of one-time 3% bonus

⁴FY 2013 included 1% for all employees, with only retirement non-contributors using their increase to offset VRS costs.

⁵FY 2014 includes a salary increase effective October 1, 2013

Note: Compensation increases offset by increased contribution requirements to VRS, general adjustments due to salary studies and actions to relieve compression are not included

Plan of Action for ARMD

FY 2014

- Comprehensive review of compensation
- Transition to city-administered health insurance
- VRIP for general employees



FY 2015

- 5 and 5 conversion
- Out of market adjustments
- DROP for sworn officers
- Living wage adjustments
- Address internal equity on a case by case basis



FY 2016

- 1 percent general wage increase for all employees
- 1, 2, or 3 percent increase for eligible general employees
- 1 step increase for eligible sworn officers



FY 2017

- Establish ongoing 1 to 4 percent salary increases which may be based on financial triggers

Preliminary Estimate of General Fund Cost

Action	FY 2015	FY 2016	FY 2016 Estimated Retirement Costs
VRIP	\$0	\$0	\$234,000
5 and 5 conversion	\$330,000	\$0	\$1,376,000
Living wage adjustments	\$100,000	\$0	
Market rate adjustments	\$950,000	\$0	
DROP	\$0	\$0	\$612,300
Funds to address internal equity	\$100,000	\$100,000	
1 percent GWI for all employees	\$0	\$2,090,000	
1, 2, or 3 percent (eligible general)	\$0	\$1,230,000	
1 step (eligible sworn)	\$0	\$1,320,000	
Total	\$1,480,000	\$4,740,000	\$2,222,300

\$6,962,300

Alternative Scenario- General Fund Costs

Action	FY 2015	FY 2016	FY 2016 Estimated Retirement Costs
VRIP	\$0	\$0	\$234,000
5 and 5 conversion	\$330,000	\$0	\$1,376,000
Living wage adjustments	\$100,000	\$0	
Market rate adjustments	\$950,000	\$0	
DROP	\$0	\$0	\$612,300
Funds to address internal equity	\$100,000	\$100,000	
1 percent GWI for general employees	\$1,140,000	\$0	
January 1, 2015 step for eligible sworn officers	\$775,000	\$0	
1 percent GWI for all employees	\$0	\$2,090,000	
1, 2, or 3 percent for eligible general employees	\$0	\$1,230,000	
January 1, 2016 step for all sworn officers	\$0	\$900,000	
Total	\$3,395,000	\$4,320,000	\$2,222,300

\$6,542,300

Police and Fire-Rescue Compensation

POLICE SWORN OFFICER

- Master Police Officer Program
 - Supplement of \$500/month
 - \$500,000 average annual cost
- FY 2009 Police Appointment and Retention Initiative
 - Increase Police Recruit starting pay
 - Revised compensation plan to allow for three 5.8% step increases

FIRE-RESCUE SWORN OFFICER

- Master Firefighter Program
 - May receive one step per year (up to four steps) and two additional steps at completion
 - \$133,000 cost in FY 2013 (ongoing)
- Opportunity for automatic promotion through certification for:
 - Firefighter EMT-Enhanced
 - Firefighter EMT-Intermediate
 - Firefighter EMT-Cardiac
 - Firefighter EMT-Paramedic

Attracting Quality Candidates

- To achieve a quality candidate pool, the city may:
 - Purchase additional advertising for the job posting (websites, brochures, newspapers, etc.)
 - Send city representatives to job fairs
 - Conduct targeted recruitment via direct mailings
- Goals to attract quality candidates:
 - Offer regionally competitive starting salaries
 - Consider offering incentives (bonuses)

Retaining Quality Employees

REASONS EMPLOYEES LEAVE


- Relationships with supervisors/managers
- Promotion opportunities
- Stress
- Dissatisfaction with pay

REASONS EMPLOYEES STAY

- Career growth, learning, and development
- Exciting, meaningful work
- Good work relationships
- Autonomy and flexibility
- Fair pay and benefits

STRATEGIES TO RETAIN QUALITY EMPLOYEES

- Provide consistent compensation increases
- Salary adjustments and bonuses for exemplary performance
- Provide means for advancement and career development
 - Career ladders
 - Tuition reimbursement
 - Training programs
 - Supervisor's Leadership Academy



Council Strategy Discussion, Direction and Setting Priorities for the FY 2015 Budget